WOOD MARKETS

HIGHLIGHTS

MONTHLY INTERNATIONAL REPORT

VOLUME 13, NUMBER 5 ■ JUNE/JULY 2008

Featuring Lumber, Panels and Wood Products Analysis

OSB/Plywood: Outlook 08/09

Balance Between Capacity Closures/Housing Starts

The massive declines in housing starts had OSB producers on the ropes in 2007, with plunging prices putting all mills in a loss position. In our Special Report in February 2007, WOOD MARKETS opened its market assessment with the prelude that "at the start of 2007, the OSB industry was facing its toughest market conditions since 1991 — when the words 'chronic oversupply' were also being uttered." Unfortunately, these pessimistic comments turned out to be more than true: the magnitude of the housing starts decline in 2007 has led to unprecedented industry turmoil into 2008, with more expected in 2009. As we also said in our February 2007 report, "The forecasts for North American structural panel consumption and output are about as bleak as they can be"; almost the same sentiment holds true for the rest of 2008 and 2009. The only saving grace is that a series of ongoing OSB capacity curtailments have recently allowed prices to rise, pushing mills' financial position back into the black, although on a tenuous basis.

CONSUMPTION WOES

Clearly, the subprime crisis and resulting home foreclosures has been the major issue impacting new housing starts and structural panel demand in 2007. This will continue to be an issue throughout the rest of 2008 and into 2009 as additional homes are put back into an already oversupplied market for new housing. **The unprecedented plunge in U.S. housing starts — from 2.07 million units at the peak in 2005 to about 950 million units in 2008 — has caused OSB and plywood consumption to plummet.** And, since up to 75% of all OSB production is used in residential construction, this makes OSB much more vulnerable on the downside to market price shocks created by changes in the housing market and/or the total number of housing starts each year. By comparison, some 30% of plywood is used in residential construction projects — this partly explains why plywood's fortunes have fared much better than those of OSB over the past 18 months.

Perhaps the more important theme that should not be forgotten in this market downcycle is that the fundamentals of long-term housing supply and demand are still very good, and even robust, for the U.S. (and Canada). As a result of immigration, demographics, household formations and several other factors, a higher rate of housing starts is expected for the next ten-year period (as compared to the current decade). So, when the recovery begins in about 2010, it should herald the start of a very favourable housing cycle, with a positive outlook for OSB.

The remodeling segment has also been impacted negatively in terms of OSB and plywood consumption in 2008,

…continued

WHAT'S INSIDE

GLOBAL PRICE TRENDS

International WOOD MARKETS Group Inc. (IWMRI & R.E. Taylor & Associates Ltd.) is pleased to provide you with an overview of our monthly 12-page WOOD Markets newsletter. The excerpts displayed in this two-page summary showcase why, since 1996, WOOD MARKETS has been the leading report addressing strategic issues and global topics that impact the solid wood products sector.

WOOD MARKETS (full 12-page report) is available by annual subscription for US$530 (international US$565) or Cdn$565 per year. Call 1-604-801-5996, by e-mail at info@woodmarkets.com, or visit **www.woodmarkets.com**.

www.woodmarkets.com

Pages 1-3 continued

but this sitation should stablize in 2009.

Weak U.S. and Canadian OSB and plywood domestic prices have shrunk exports, but imports from South America and Europe recorded large increases into North America in 2005 and 2006. These are expected to show a decline from 1.75 billion sf to 700 million sf by 2009.

The biggest factor impacting the next couple of years will continue to be the housing crisis. North American structural panel demand is forecast to decline by 13 billion sf from the peak in 2005 to the nadir in late 2008/early 2009. The saving grace is the fact that 14 OSB mills have closed indefinitely since late 2006, and this has helped to balance supply with demand. However, OSB prices are anticipated to remain under pressure for another 18 months.

Plywood appears to be in reasonable shape due to advance cutbacks and product-line adjustments. ■

(The full *WOOD MARKETS* article provides further details of production, exports, imports and price trends.)

Pages 4–5
U.S. Moulding Market
New Paradigms for Supply and Demand in Tough Markets

The U.S. housing collapse and resulting economic downturn is well known. Millwork businesses know full well how difficult the transition has been from the heydays of 2004–2006 to the trying conditions of today. Nevertheless, reviewing the market drivers and trends puts the industry in a better position to plan for the future. International WOOD MARKETS Group is in the process of completing the fourth edition of its five-year outlook for moulding and millwork. Due out in August, this report will offer up-to-date information on supply, demand, imports and forecasts for the moulding and millwork sector.

Clearly, the biggest wild cards for the moulding market are how long it will take before demand picks up, and what the supply response from domestic and offshore producers will be (and the buying strategies of their customers). These answers, along with our five-year outlook for raw material/moulding prices, are available in the full *Clearwood Multi-Client Report* (visit **www.woodmarkets.com** for a complete table of contents and subscription information). ■

(The full *WOOD MARKETS* article provides further information on moulding and millwork supply and demand versus consumption statistics.)

WHAT'S NEW:

WOOD MARKETS CHINA BULLETIN

The eighth issue of our newest publication, **WOOD MARKETS China Bulletin,** is ready for viewing at **http://newsletter.woodmarkets.com.cn.**

The Bulletin includes Chinese industry trends, topics of interest, statistics and prices relevant to the wood industry. For an interim period, this publication will be a free service to subscribers. To join, visit **www.woodmarkets.com/china_products.html**.

GLOBAL WOOD BOOK
Trends & Statistics

Released in April 2007, this report features:

- Country profiles of softwood (and hardwood) wood products industries.
- Softwood/hardwood trends (prod'n/imports/exports/consumption) in timber harvests, lumber, plywood, OSB, MDF and particleboard.
- 550 pages, over 300 full data tables and 400 summary graphs.

For details go to **www.woodmarkets.com**.

CLEARWOOD REPORT
Pine Lumber, Moulding & Millwork Sector Outlook to 2012
4th Edition

Scheduled for release in August 2008, IWMG will be publishing its 4th edition of its multi-client report on the supply/demand dynamics of:

- Global pine timber and appearance lumber;
- Mouldings: solidwood, finger-joint, MDF, & plastic (including five-year price forecasts); and
- Other millwork, including windows, doors, clear boards and other segments.

New to this edition is a cost benchmarking of finger-joint and MDF moulding producers from major producing regions, as well as updated analysis on the distribution channel for mouldings within the U.S.

This report provides our strategic insight of the current and anticipated trends in the clear pine lumber & moulding sector plus our analysis of the resulting downstream market implications. For information, please contact Peter Butzelaar **(peterb@woodmarkets.com).**

Publisher & Editor Russell E. Taylor
Associate Editors Peter Butzelaar, Gerry Van Leeuwen
Managing Editor/Layout Jane Keyes
Research Chari Gimenez
Subscriptions Barb MacDonald

Mailing Address
Suite 501–570 Granville Street
Vancouver, B.C., Canada V6C 3P1

Phone: 604-801-5996 (country code 1)
Fax: 604-801-5997
e-mail: info@woodmarkets.com
website: www.woodmarkets.com

©International WOOD MARKETS Group Inc.
Vancouver, B.C., Canada
All rights reserved • Printed in Canada

No part of this publication may be reproduced or transmitted in any form whatsoever (electronic, mechanical, photocopy, facsimile, etc.) without the express written permission of the publisher.

Subscription Rates (1 year, 10 issues):
E-mail (pdf): U.S. — US$530
International — US$565
Canada — Cdn$565 (+GST/HST)

Back issues (subscribers only): US$75

WOOD MARKETS MONTHLY INTERNATIONAL REPORT

Forecasts, by their very nature, are based upon assumptions and are subject to future events over which we have no control; we make no warranties regarding such projections. Although great care has been taken to ensure accuracy and completeness in the analysis, data and forecasts in this report, no legal responsibility can be accepted by IWMG for the information and opinions contained herein. ISSN #1480-0969